

EXHIBIT M

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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BY ELECTRONIC MAIL

April 30, 2019

The Honorable Raúl Maldonado Gautier, Esq., CPA
Chief Financial Officer
Government of Puerto Rico

Mr. Luis Collazo Rodríguez
Administrator & Executive Director
Retirement Board & Employees Retirement System
Government of Puerto Rico

Dear Secretary Maldonado Gautier and Executive Director Collazo Rodríguez,

I write to you regarding the latest “PayGo and Individual Contribution Debt by Entity” report (the “Report”) submitted monthly by AAFAF to the Oversight Board. The Report lists all pension PayGo fees owed by municipalities and public corporations to the central government for the payment of retiree pension benefits.

Decades of fiscal mismanagement decimated Puerto Rico’s pension funds. When the Oversight Board and the current Government began their work, a PayGo system was implemented to ensure adequate funding of pensions in accordance with PROMESA. Maintaining funding of pension benefits for all retirees is one of the Oversight Board’s highest priorities and something the Board remains dedicated to preserving. That is why we are very concerned with the repeated practice of non-transfer of employee contributions that are required to be set aside, as well as the failure of many municipalities and public corporations to remit their required monthly PayGo fees. The PayGo system is predicated on the assumption that all entities will cover the cost for their retirees. The Oversight Board will continue to make sure pensions are adequately funded, but the Government must also take immediate action to curtail the current situation and resolve these overdue debts.

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Section 1.6(g) of Act 106-2017 mandates that all participating municipalities and public corporations in Puerto Rico's Employee Retirement System must pay the PayGo fee. Section 2.1(f) also clearly states every government entity shall earmark the funds needed for the payment of the PayGo fee in their annual general fund budgets. Yet the Report indicates that there is approximately \$340 million in accrued debt from 28 public corporations and 66 municipalities since implementation of the PayGo system in 2017. This shortfall includes both failures by municipalities and public corporations to make the required PayGo charge as well as failures to remit individual employee payroll withholdings, which are intended to be deposited in individual retirement accounts being established in those employees' names.

Among the entities that have failed to pay the PayGo fee for their retirees and, as a result, accrued the largest debts due to the central government, are the municipalities of San Juan (\$72 mm), Ponce (\$10 mm), Carolina (\$8 mm), and Toa Baja (\$6 mm) as well as the public corporations PRASA (\$67 mm), the Ports Authority (\$31 mm), and the State Insurance Fund (\$24 mm). A list of municipalities and public corporations that have accrued at least \$1 million in PayGo debt is listed below.

Public corporations and municipalities that owe at least \$1.0 mm in PayGo Debt

Public Corporations				Municipalities			
Entity (\$ ths)	FY2018	FY2019	Total	Entity (\$ ths)	FY2018	FY2019	Total
PRASA	\$4,645	\$62,771	\$67,416	San Juan	\$34,902	\$37,536	\$72,438
Puerto Rico Ports Authority	22,686	7,829	30,514	Ponce	4,652	5,184	9,837
State Insurance Fund	6,649	17,193	23,843	Carolina	2,057	6,252	8,309
PR Industrial Development Co.	9,025	6,636	15,661	Toa Baja	3,388	2,535	5,923
Metropolitan Bus Authority	13,588	-	13,588	Mayaguez	2,593	3,101	5,693
Admin. of Agrigultural Dvlp & Services	902	7,700	8,602	Guaynabo	-	5,603	5,603
Highway and Transportation Authority	2,488	2,141	4,629	Arecibo	2,947	2,407	5,354
Medical Services Administration (ASEM)	4,614	-	4,614	Bayamón	-	4,222	4,222
Office of the Controller	3,912	-	3,912	Caguas	3,335	557	3,892
Agricultural Extension Service	-	3,271	3,271	Cayey	1,304	1,126	2,431
Puerto Rico Trade and Export Co.	2,303	781	3,085	Cabo Rojo	730	851	1,581
CRIM	1,677	1,278	2,955	Santa Isabel	727	609	1,336
Puerto Rico Land Authority	2,021	-	2,021	San Sebastian	35	1,095	1,130
Public Building Authority	-	1,899	1,899	Total	\$56,671	\$71,079	\$127,750
Auto Accident Compensation Admin	-	1,069	1,069	<i>Other Municipalities</i>	<i>\$4,659</i>	<i>\$10,446</i>	<i>\$15,105</i>
Total	\$74,511	\$112,567	\$187,078				
<i>Other Public Corporations</i>	<i>\$1,296</i>	<i>\$696</i>	<i>\$1,991</i>				

It is also very troubling that 20 municipalities and seven public corporations are also not remitting individual employee payroll withholdings for that employee's defined contribution retirement account. These are deductions taken from employee paychecks and must be remitted to a segregated defined contribution account on that employee's behalf. By withholding that transfer, officers of those entities might be in violation of Article 3.5(2)(b) of Act 106-2017. The entities that accumulated the largest individual employee payroll withholding debts are listed below.

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Public corporations and municipalities with more than \$150k in individual employee payroll withholding debt

Public Corporations				Municipalities			
Entity (\$ ths)	FY 2018	FY 2019	Total	Entity (\$ ths)	FY 2018	FY 2019	Total
Metropolitan Bus Authority	\$852	\$1,054	\$1,906	Ponce	\$1,985	\$1,468	\$3,453
Highway and Transport. Authority	-	406	406	Arecibo	929	198	1,127
Correctional Health	-	205	205	Villalba	237	128	366
Maritime Transportation Authority	-	100	100	Vieques	59	216	275
Integrated Transit Authority	-	11	11	Guánica	131	87	218
Agricultural Insurance Company	-	7	7	Río Grande	-	220	220
Higher Education Council	-	7	7	Patillas	43	128	171
Total	\$852	\$1,791	\$2,643	Yauco	39	207	246
				Arroyo	23	160	184
				Maricao	99	70	168
				Total	\$3,545	\$2,883	\$6,428
				<i>Other Municipalities</i>	<i>\$1</i>	<i>\$328</i>	<i>\$329</i>

The responsible payment by all employers of all PayGo fees is essential to ensure that retirees and beneficiaries continue receiving their pension benefits moving forward. Section 16 of the certified Fiscal Plan assumes PayGo costs will be fully covered and paid by each respective entity. Therefore, there are no General Fund or other appropriations in the certified Budget to fund PayGo benefits for non-paying municipalities and public corporations without prompt reimbursement by them. Continued payment of retirement benefits without reimbursement from these employers is an unauthorized expenditure under the certified Budget and every effort must be taken to collect these delinquent debts or offset these incremental unbudgeted expenses within other areas of the budget.

As contemplated in Section 3.2 of Act 106-2017, remedial action must be taken immediately to rectify this situation and secure repayment for these overdue amounts. For example, if the Government does not believe efforts to collect the PayGo fee from non-contributing municipalities and public corporations will be successful, central government payments to those entities, or spending elsewhere in the certified Budget, will need to be adjusted such that these costs are properly budgeted and the pension payments can continue to be made.

Accordingly, the Retirement Board, its designee, or the Managing Entity shall certify the debt of each delinquent entity and request in writing that:

- The Secretary of the Treasury adjust the accounts, obligations, and advances that the Department of the Treasury must otherwise remit to the delinquent employer, and transfer the full amount of the delinquent PayGo fee from the appropriate account;
- The Office of Management and Budget start withholding the necessary amounts from appropriations made to agencies of the Government of Puerto Rico, such as transfers to the Integrated Transit Authority, DDEC and Agriculture, among others;

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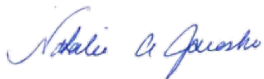
- Within 7 days, instruct the Municipal Revenue Collection Center (CRIM) to remit the delinquent amounts of the PayGo fees owing by all delinquent municipal employers from the unencumbered balance of the property tax and other revenues that the municipalities are otherwise entitled to receive in accordance with Act No. 80-1991, as amended, known as the “Municipal Revenue Collection Center Act.” Additionally, in accordance with Section 3.5(2)(a)(iii), instruct CRIM to place an automatic and permanent preferred statutory lien over the unencumbered balance in favor of the Retirement Board and/or Managing Entity until the delinquent amount has been repaid.

To ensure sufficient action is taken, the Oversight Board requires the Retirement Board provide the following information:

- By May 10, a list of the dollar amount of unrestricted bank account balances at each entity delinquent in paying its PayGo fees;
- By May 10, confirmation that all individual employee payroll withholding debts will be settled within 10 business days, consistent with Section 3.5(2)(b) of Act 106-2017;
- By May 31, a detailed plan for each delinquent municipality and public corporation on how these overdue payments will be collected. This must include the timeline to enter into payment plans and dates when all of the requirements above will be completed; and
- By May 31, an explanation of actions being taken to prevent the continued accrual of PayGo debts for each participating entity going forward.

All government entities must settle their overdue PayGo fees and individual employee payroll withholding with the utmost of urgency and no later than the deadlines set forth above.

Sincerely,



Natalie A. Jaresko

CC: Christian Sobrino Vega